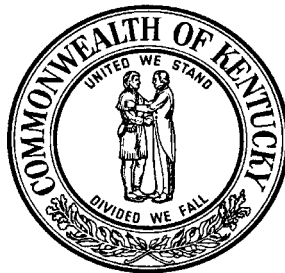


**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 25, 2003



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the Graves County Sheriff's Settlement - 2002 Taxes.

We engaged Berger & Company, CPA, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC, evaluated the Graves County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 25, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Graves County Sheriff as of April 25, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,634,567 for the districts for 2002 taxes, retaining commissions of \$274,175 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,352,984 to the districts for 2002 Taxes. Taxes of \$1,235 are due to the districts from the Sheriff and the Sheriff is due a refund of \$27 from a taxing district.

Report Comments:

- The Sheriff Should Have A Written Agreement to Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk.

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To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

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Honorable John Davis, Graves County Sheriff

Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2002 Taxes as of April 25, 2003. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of April 25, 2003, in conformity with the modified cash basis of accounting.

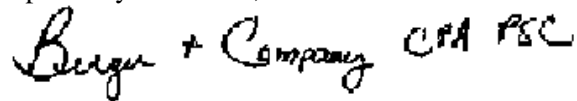
To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have A Written Agreement to Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
July 25, 2003

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

April 25, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 796,177	\$ 869,555	\$ 2,365,997	\$ 1,221,408
Tangible Personal Property	105,021	100,778	287,257	400,923
Intangible Personal Property				138,136
Fire Protection	695			
Franchise Corporation Taxes	108,245	127,487	284,259	
Additional Billings	1,066	843	1,968	852
Clay Reserves	76	78	288	116
Bank Franchises	60,675			
Penalties	7,443	8,041	22,128	13,367
Adjusted to Sheriff's Receipt	(288)	179	6,825	(657)
Gross Chargeable to Sheriff	<u>\$ 1,079,110</u>	<u>\$ 1,106,961</u>	<u>\$ 2,968,722</u>	<u>\$ 1,774,145</u>
<u>Credits</u>				
Exonerations	\$ 3,277	\$ 3,492	\$ 9,843	\$ 5,063
Discounts	13,177	14,174	38,777	26,555
Delinquents:				
Real Estate	18,466	20,432	47,050	28,329
Tangible Personal Property	3,324	3,198	10,324	5,833
Intangible Personal Property				1,532
Discounts - Bank Franchises	1,214			
Uncollected Franchise Taxes	<u>11,430</u>	<u>11,592</u>	<u>17,289</u>	
Total Credits	<u>\$ 50,888</u>	<u>\$ 52,888</u>	<u>\$ 123,283</u>	<u>\$ 67,312</u>
Taxes Collected	\$ 1,028,222	\$ 1,054,073	\$ 2,845,439	\$ 1,706,833
Less: Commissions *	<u>43,838</u>	<u>43,690</u>	<u>113,818</u>	<u>72,828</u>
Taxes Due	\$ 984,384	\$ 1,010,383	\$ 2,731,621	\$ 1,634,005
Taxes Paid	982,857	1,009,029	2,728,708	1,632,390
Refunds (Current and Prior Year)	<u>1,022</u>	<u>1,038</u>	<u>2,540</u>	<u>1,601</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 505</u>	<u>\$ 316</u>	<u>\$ 373</u>	<u>\$ 14</u>

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 April 25, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,685,583
4% on	\$	2,904,901
1% on	\$	34,085

** Special Taxing Districts:

Library District	\$	120
Health District		102
JU Kevil		111
Watershed District #1		1
Watershed District #2		9
Symsonia Fire		(27)

Due Districts or (Refund Due Sheriff)	\$	<u>316</u>
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The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 25, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
April 25, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 14, 2002 through April 25, 2003.

Note 4. Interest Income

The Graves County Sheriff earned \$8,023 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 6. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$35,375 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Graves County Sheriff collected \$3,495 of advertising costs and \$5,070 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 25, 2003

1) The Sheriff Should Have A Written Agreement to Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 10, 2002, the Sheriff had bank deposits of \$4,698,124; FDIC insurance of \$100,000; and collateral pledged or provided of \$5,500,000. Even though the Sheriff obtained sufficient collateral of \$5,500,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

Sheriff's Response:

Will request from bank.

2) The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk

During our audit we noted that the Sheriff has not yet turned over delinquent, uncollected franchise tax bills to the County Clerk. We recommend that such bills be given to the County Clerk immediately.

Sheriff's Response:

Will comply.

PRIOR YEAR FINDINGS:

The Sheriff Should Have A Written Agreement to Protect Deposits

This comment was not corrected and is discussed above.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky
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Honorable John Davis, Graves County Sheriff
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2002 Taxes as of April 25, 2003, and have issued our report thereon dated July 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2002 Taxes as of April 25, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have A Written Agreement to Protect Deposits
- The Sheriff Should Turn Delinquent, Uncollected Franchise Tax Bills Over To The County Clerk.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
July 25, 2003

